

# Fund 506

## Health Benefits Trust Fund

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### Focus

Fairfax County Government offers its employees and retirees health insurance options providing choices and competitive premium rates. The County health insurance alternatives include a self-insured point-of-service (POS) plan, a self-insured preferred provider plan (PPO) and two fully insured Health Maintenance Organizations (HMOs) for both active employees and retirees. The County's current health insurance program is a result of revisions enacted in FY 1999 and FY 2001. As of December 31, 2006, the County's contracts with the current HMO providers are set to expire, and the contract for the self-insured products will expire as of December 31, 2007. In calendar year 2006, the County will be partnering with Fairfax County Public Schools and undergoing a selection process to choose new providers for all health insurance products in order to leverage the County's position in the marketplace and achieve competitive rates. This process may result in changing the range of health insurance options to best fit the needs of employees. As part of this process, the County will also be examining plans related to Medicare Part D to aid in finalizing an approach to the implementation of this new prescription drug benefit product. However, due to the delays in the market for Medicare Part D products, this examination may not be completed until calendar year 2007. Any changes to the health insurance options are expected to be effective January 1, 2007, although changes related to Medicare Part D offerings may not be effective until after this date.

Fund 506, Health Benefits Trust Fund, is the administrative unit for the self-insured alternatives. For the self-insured plans, the County pays only for claims and third party administrative fees. The cost to fund claims expenses is covered by premiums from active employees, the employer, retirees and retention of interest earnings.

The self-insured plans (POS and PPO) provide in-network and out-of-network options. The POS plan combines the best features of an HMO and a traditional indemnity plan. The second option provides the choice of a PPO combining an in-network benefit and an out-of-network benefit for those employees and retirees who live outside of the managed care network area.

After significant increases in medical costs at the beginning of the decade, cost growth has begun to moderate in the last few years. On average, most employers nationwide are experiencing cost increases from 8 to 10 percent per year. The County's experience under the HMOs mirrors this trend, but the self-insured plan has experienced medical cost growth below the national average. As a result of lower than anticipated medical and prescription claims in recent years, the County's self-insured plan will not increase premiums effective January 1, 2007 for the final six months of FY 2007. However, it should be noted that final premium rates will depend upon the outcome of the County's selection of new health insurance providers. Despite holding premiums flat, the fund should remain solvent while maintaining a revenue stream that will cover the cost of health claims and maintain reserve funding.

Advances in medical technology, the increasing cost of medical malpractice and liability insurance, and increased utilization continue to drive increases in medical costs. To mitigate the impact of unanticipated cost increases in future years, the County created a premium stabilization reserve in FY 2005. This reserve allows the County to maintain premium increases at manageable levels and smooth out the employer and employee impact of dramatic cost growth swings.

In addition, the targeted ending balance for the fund is based on a balance as a percent of claims paid of at least 10 percent to ensure that the fund balance is adequate to support any unanticipated high cost claims. It should be noted that an ending balance of 10 to 15 percent of claims paid is the targeted industry standard.

The County continues to contribute 85 percent of the total premium for employees enrolled as an individual and 75 percent of the total premium for employees enrolled under either the two-party or family plan. Retirees over the age of 55 currently receive a subsidy from the County toward the cost of health insurance. The current monthly subsidy, approved in FY 2006, commences at age 55 and varies by length of service. Note: There is not a reduction in subsidy payments for employees who retired prior to July 1, 2003 but do not meet the revised requirements for years of service. Details on the retiree health subsidy can be found in the narrative for Fund 500, Retiree Health Benefits, in Volume 2 of the FY 2007 Adopted Budget Plan.

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It should be noted that as part of the *FY 2005 Carryover Review*, a reserve was established to begin to address the County's unfunded liability for postemployment benefits as a result of the Governmental Accounting Standards Board (GASB) Statement No. 45. An amount of \$10 million was available for the creation of this reserve from excess revenues received from employer contributions. As part of the FY 2007 Adopted Budget Plan, an additional \$8.2 million is available for the reserve as the result of a transfer from the General Fund. It is anticipated that a new trust fund will be established in FY 2007 to begin pre-funding postemployment healthcare and other non-pension benefits, and funding set aside in the reserve will be transferred to this new fund. The \$18.2 million in initial funding will reduce the unfunded liability and, consequently, will reduce the annual required contribution that will be made to the trust fund beginning in FY 2008. It should be noted that any balances in Fund 506 at future quarterly reviews will also be considered for possible transfer to the newly established trust fund to assist in addressing the County's unfunded GASB 45 liability. For more information on GASB 45, please refer to Fund 500, Retiree Health Benefits, in Volume 2 of the FY 2007 Adopted Budget Plan.

### FY 2007 Funding Adjustments

*The following funding adjustments from the FY 2006 Revised Budget Plan are necessary to support the FY 2007 program:*

- ◆ **Health Insurance Requirements** **\$374,053**  
An increase of \$374,053 is primarily attributable to an increase of \$1,410,535 in benefits paid due to an 8.0 percent cost growth assumption and anticipated employee participation in the plan. This is partially offset by a decrease of \$556,087 in administrative expenses, a decrease of \$233,606 for the premium stabilization buffer, and a decrease of \$246,789 for Incurred But Not Reported (IBNR) claims based on anticipated requirements.

### Board of Supervisors' Adjustments

*The following funding adjustments reflect all changes to the FY 2007 Advertised Budget Plan, as approved by the Board of Supervisors on May 1, 2006:*

- ◆ **General Fund Transfer – GASB 45 Reserve** **\$8,200,000**  
The Board of Supervisors approved a General Fund transfer of \$8,200,000 in order to increase the GASB 45 Liability Reserve. This funding, in addition to \$10 million set aside as part of the *FY 2005 Carryover Review*, is anticipated to be transferred to a new trust fund which will be established in FY 2007 to begin pre-funding postemployment healthcare and other non-pension benefits.

### Changes to FY 2006 Adopted Budget Plan

*The following funding adjustments reflect all approved changes in the FY 2006 Revised Budget Plan since passage of the FY 2006 Adopted Budget Plan. Included are all adjustments made as part of the FY 2005 Carryover Review and all other approved changes through December 31, 2005:*

- ◆ **Carryover Adjustments** **\$8,328,030**  
As part of the *FY 2005 Carryover Review*, the Board of Supervisors approved an increase of \$8,328,030 to reflect an appropriation from fund balance to increase the premium stabilization buffer which allows the fund flexibility in maintaining premium increases at manageable levels.

*The following funding adjustments reflect all approved changes to the FY 2006 Revised Budget Plan from January 1, 2006 through April 24, 2006. Included are all adjustments made as part of the FY 2006 Third Quarter Review:*

- ◆ The Board of Supervisors made no adjustments to this fund.

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### FUND STATEMENT

Fund Type G50, Internal Service Funds	Fund 506, Health Benefits Trust Fund				
	FY 2005 Actual	FY 2006 Adopted Budget Plan	FY 2006 Revised Budget Plan	FY 2007 Advertised Budget Plan	FY 2007 Adopted Budget Plan
<b>Beginning Balance</b>	<b>\$14,409,489</b>	<b>\$9,660,728</b>	<b>\$27,988,758</b>	<b>\$20,075,146</b>	<b>\$20,075,146</b>
Revenue:					
Employer Share of Premiums- County Payroll	\$43,683,353	\$43,592,769	\$43,592,769	\$47,814,676	\$47,814,676
Employee Share of Premiums- County Payroll	12,740,584	13,515,008	13,515,008	14,332,619	14,332,619
Other Funds Premiums	14,229,148	15,133,648	15,133,648	17,592,687	17,592,687
Interest Income	574,043	350,000	350,000	1,364,475	1,364,475
Administrative Service Charge	38,777	11,000	11,000	41,343	41,343
<b>Total Revenue</b>	<b>\$71,265,905</b>	<b>\$72,602,425</b>	<b>\$72,602,425</b>	<b>\$81,145,800</b>	<b>\$81,145,800</b>
Transfer In:					
General Fund (001)	\$0	\$0	\$0	\$0	\$8,200,000
<b>Total Transfer In</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,200,000</b>
<b>Total Available</b>	<b>\$85,675,394</b>	<b>\$82,263,153</b>	<b>\$100,591,183</b>	<b>\$101,220,946</b>	<b>\$109,420,946</b>
Expenditures:					
Benefits Paid	\$54,589,203	\$60,450,876	\$60,450,876	\$61,861,411	\$61,861,411
Administrative Expenses	2,812,433	3,729,613	3,729,613	3,173,526	3,173,526
Premium Stabilization Reserve Incurred but not Reported	0	7,210,850	15,538,880	15,305,274	15,305,274
Claims (IBNR)	285,000	796,668	796,668	549,879	549,879
<b>Total Expenditures</b>	<b>\$57,686,636</b>	<b>\$72,188,007</b>	<b>\$80,516,037</b>	<b>\$80,890,090</b>	<b>\$80,890,090</b>
<b>Total Disbursements</b>	<b>\$57,686,636</b>	<b>\$72,188,007</b>	<b>\$80,516,037</b>	<b>\$80,890,090</b>	<b>\$80,890,090</b>
Ending Balance:					
Fund Equity	\$34,488,758	\$17,329,251	\$27,371,814	\$27,754,225	\$35,954,225
IBNR	6,500,000	7,254,105	7,296,668	7,423,369	7,423,369
<b>Ending Balance<sup>1</sup></b>	<b>\$27,988,758</b>	<b>\$10,075,146</b>	<b>\$20,075,146</b>	<b>\$20,330,856</b>	<b>\$28,530,856</b>
Premium Stabilization Reserve	\$8,328,030	\$0	\$0	\$0	\$0
GASB 45 Liability Reserve <sup>2</sup>	10,000,000	0	10,000,000	10,000,000	18,200,000
<b>Unreserved Ending Balance</b>	<b>\$9,660,728</b>	<b>\$10,075,146</b>	<b>\$10,075,146</b>	<b>\$10,330,856</b>	<b>\$10,330,856</b>
<b>Percent of Claims</b>	<b>17.7%</b>	<b>16.7%</b>	<b>16.7%</b>	<b>16.7%</b>	<b>16.7%</b>

<sup>1</sup> The FY 2005 Actual Ending Balance increases over the FY 2005 Actual Beginning Balance based on better than anticipated experience during the fiscal year. Fluctuations in the ending balance in budget years are due to the Fund's policy of maintaining the ending balance as a percent of claims at the targeted industry standard.

<sup>2</sup> At the FY 2005 Carryover Review, a reserve was created to address the unfunded liability for post-employment benefits as a result of the Governmental Accounting Standards Board (GASB) Statement No. 45. As part of the FY 2007 Adopted Budget Plan, the Board of Supervisors approved a General Fund transfer of \$8.2 million to increase the reserve balance.